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GATT TRADE POLICY REVIEW

INDONESIA

On 25-26 April 1991, the GATT Council will conduct a comprehensive examination of the trade policies of Indonesia. The examination will be based on reports prepared by Indonesia and the GATT Secretariat.

The reports cover all aspects of Indonesia's trade policy, including domestic laws and regulations; the institutional framework; bilateral, regional and other preferential agreements; and wider economic questions.

The trade policy review mechanism was launched in December 1989 as one of the early results of the Uruguay Round to enable a regular collective evaluation by the GATT council of the full range of trade policies of individual GATT members.

Attached are summary extracts of the reports prepared respectively by the GATT Secretariat and the Indonesian Government. Full reports are available for journalists from the GATT Secretariat on request.

The complete trade policy review of Indonesia, including these two reports together with a record of the Council's discussion and of the Chairman's summing-up, will be published later in 1991, and will be available from the GATT Secretariat, Centre William Rappard, 154 rue de Lausanne, 1211 Geneva 21, Switzerland.

Since December 1989, reviews of the following countries have been completed and are available from the GATT Secretariat: Australia, Canada, Colombia, Hong Kong, Japan, Morocco, New Zealand, Sweden and the United States.

TRADE POLICY REVIEW

INDONESIA

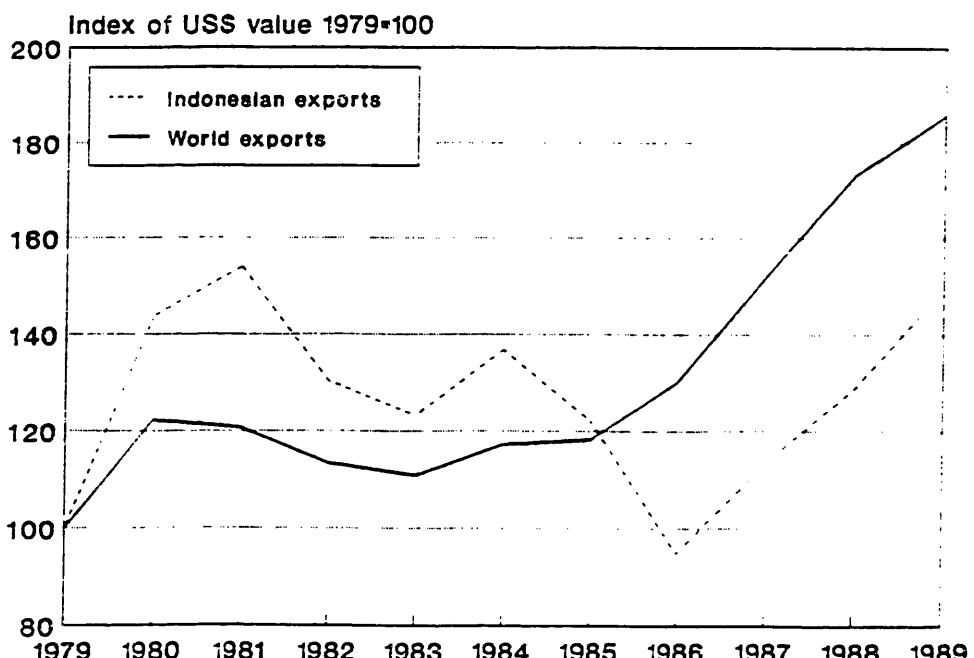
Report by the GATT Secretariat - Summary Observations

(1) Indonesia in World Trade

Indonesia currently ranks 31st and 35th among world exporters and importers, respectively. Its share in world merchandise exports was 0.7 per cent in 1989.

Between 1981 and 1986, falling commodity prices, especially for petroleum, depressed Indonesia's trade performance. During a period in which the dollar value of world merchandise trade largely stagnated, Indonesia's merchandise exports declined (Chart).

Indonesian and world merchandise exports, 1979-89



Source: IMF, International Financial Statistics; GATT
Secretariat estimates.

Since 1986, Indonesia's trade performance has turned around. Export growth matched that of world trade until 1988 and, more recently, has expanded at a faster rate. The dollar value of merchandise imports also strongly recovered from its trough in the mid-1980s. Indonesia's ratio of merchandise exports to GDP grew from 21½ to 24 per cent between 1985 and 1989, and that of merchandise imports from 12 to 18 per cent. Trade-led economic growth followed the introduction of more outward looking trade policies.

Trade liberalizing measures were reinforced by a progressive deregulation of financial markets and rules governing foreign and domestic investment. Rapid growth in foreign investment resulted, rising tenfold between 1986 and 1990. Access to overseas capital, technology and skills contributed to a more competitive industrial structure, created employment, boosted Indonesia's trading potential and alleviated the country's debt burden.

Trade and investment reforms, complemented by prudent monetary and fiscal policies and efforts to maintain a realistic real exchange rate, have played a major rôle in diversifying the economy and promoting broadly-based growth. Although still substantial, the dependence on oil and gas exports has fallen in favour of manufactured exports. Fuel exports declined in dollar value by one-half over the past decade, and now account for 40 per cent of total merchandise exports. By 1989, manufactured exports represented 50 per cent of total merchandise exports, up from 11 per cent in 1981. The ratio of manufactured exports to GDP has more than doubled to 12 per cent since 1985.

Export diversification has been strongest in processed natural resource-based products such as plywood, the single most important manufactured export item, and major labour intensive industries like clothing and footwear. Several smaller industries such as wooden and rattan furniture, petrochemicals, pulp and paper have emerged as potentially important economic activities. Agricultural exports, mainly coffee, spices, tea, shrimps and rubber, have also performed well.

Geographical diversification of trade has been less pronounced. Japan, United States and Singapore have remained Indonesia's main trading partners, accounting for over half of merchandise trade. Buoyant growth has occurred in trade with other ASEAN members, the major developing economies of East Asia and the European Communities.

(2) Institutional Framework

Indonesia does not have a basic trade law, although a Commercial Code enacted in 1847 still exists. Instead, trade policy is formulated and administered through the use of numerous legal instruments and regulations, such as presidential decrees, decisions and instructions; joint ministerial decrees; and ministerial decrees and instructions.

The main Ministries involved in setting trade policies in Indonesia, namely Trade, Industry, Agriculture, Finance and the Co-ordinating Ministry

for Economic, Financial and Industry Affairs (EKUIN), along with Bank Indonesia, each have separate responsibilities over aspects of trade and industry policies. Informal procedures play an important rôle in formulating these policies.

No permanent body exists in Indonesia to advise the Government on trade-related policies. However, a Deregulation Team comprising high-ranking Government officials and chaired by the Junior Minister of Finance provides advice on trade-related and other economic policies. The Team has played a vital rôle in devising deregulatory reforms implemented since May 1986. The Government interacts informally with the private sector in formulating policy reforms.

Indonesia has no independent statutory body to review the Government's economic policies, including the provision of public assistance to industries. Industry requests for tariff protection are reviewed by an inter-departmental Tariff Team.

(3) Trade Policy Features and Trends

Indonesia became a contracting party to the GATT in its own right in 1950. It signed the GATT Code on Subsidies and Countervailing Duties in 1985 and is an observer to six other Tokyo Round Codes. Indonesia has participated actively in the Uruguay Round both individually and also as a member of ASEAN, the Cairns Group and the International Textiles and Clothing Bureau.

Tariff rates are applied on an m.f.n. basis to over 90 per cent of the total value of Indonesian imports. The only major exception to the application of m.f.n. tariffs are reductions of up to 50 per cent for eligible ASEAN imports in the framework of the Preferential Tariff Agreement.

Indonesia's participation in the GSTP is currently limited to preferences for three products in trade with the Republic of Korea. The maximum preference margin on imports eligible for GSTP treatment is that accorded ASEAN members.

Indonesian exports receive GSP treatment from most developed countries.

(i) Recent evolution

Sweeping reforms in Indonesia's economic policies became necessary in the mid-1980s after a severe deterioration in its terms of trade. A further external shock was the increase in debt service repayments on non-US dollar foreign debt following the dollar's depreciation, especially against the Japanese yen. These shocks cost Indonesia an estimated 10 per cent of GDP.

The Government reversed its previous inward-looking policies and introduced a broadly based adjustment programme to restructure the economy

and promote export-led growth. Its approach to economic reform was comprehensive. Tight monetary and fiscal policies restrained both public and private expenditures, helped control inflation and consolidate the balance of payments. International competitiveness of Indonesia's industries was boosted by two major currency devaluations and the introduction of a flexibly-managed exchange rate system. Rules on foreign and domestic investment were relaxed, the financial sector deregulated and the foreign trade regime substantially liberalized.

The need for import-opening measures reflected the Government's recognition that the lack of competitively priced foreign goods was hindering economic development in Indonesia. In 1985, the Government set about removing the main import-bottlenecks to future development. A major initial step was to overhaul customs procedures, including the introduction of compulsory pre-shipment inspection of most imports by a specialized company (SGS). Clearance time for many imports has now been reduced, from weeks and sometimes months, to less than three days.

Successive trade reforms introduced since the mid-1980s have removed many impediments to structural change and, by exposing industries to greater international competition, enhanced efficiency in the use of resources. Changes in trade policies have been introduced gradually. Major trade reform packages were introduced in March 1985, May and October 1986, January and December 1987, November 1988 and May 1990.

Trade reforms have been implemented in a selective fashion, concentrating on areas within manufacturing offering least resistance to change. Because of the competitive pressures induced by policy reforms, liberalization measures had to be reversed in certain areas. Specific measures of assistance continue to shelter some industries, such as segments of the steel, clothing and transportation sectors, from international competition.

Agricultural self-sufficiency remains a central policy objective, and relatively few major reform initiatives have so far been made in the agricultural and food processing industries. The pricing and marketing of strategic crops such as rice, sugar and soybeans are controlled by the Government through the National Logistic Affairs Bureau (BULOG). Input subsidies on fertilizers, irrigation facilities, seed and, until recently, pesticides are also granted to promote self-sufficiency. Farmers, like other users, receive petroleum products at subsidized prices.

Trade restrictions have increased in some areas of primary industry. Export controls and restrictions on unprocessed agricultural and forestry products have been extended, in recent years, as part of the Government's strategy to increase the domestic value added content of natural resource-based products.

Despite the substantial achievements at this stage of trade policy reform, wide disparities in the levels of public assistance still prevail in Indonesia, both across broad sectors and between individual industries. Indonesian experience suggests that a more uniform assistance structure

would reduce distortions, induce a more efficient allocation of resources and help combat inflation by making the economy more flexible and encouraging greater price competition.

(ii) Type and incidence of trade policy instruments

Tariffs and import licensing are the principal instruments of import policy in Indonesia. These continue to be major impediments to trade in important areas of the Indonesian economy. With tariffication and relaxation of many licensing restrictions, tariffs are playing a more important rôle in determining the level and pattern of imports.

Average m.f.n. tariffs applied in Indonesia have been progressively lowered to 22 per cent (simple average), down from 37 per cent in 1984. Some 5 per cent of tariff items attract tariffs above the general ceiling of 40 per cent implemented from May 1990. Rates of 60 per cent or higher are levied on goods like footwear, cosmetics, chemicals and plastics. Tariff peaks of 100 and 200 per cent apply to transport equipment.

Substantial tariff escalation occurs in the Indonesian customs schedule, especially in clothing, chemicals, steel, pulp and paper. On average, tariffs for consumer goods are more than double the rates applied to capital and intermediate goods. Import surcharges of up to 40 per cent, applied mainly to goods receiving relatively high tariffs, accentuate tariff escalation and contribute to a more disparate tariff structure. This is compounded by certain arrangements that enable various producers to import inputs at concessional tariff rates. Imports of consumer goods, constrained by escalating tariffs, represent less than 5 per cent of total imported products.

Import surcharges have compensated domestic producers in certain sensitive industries for the removal of import licences. They have been maintained on many goods beyond the period of one year for which the surcharges were initially envisaged. Cushioning producers for a prolonged period of time creates the risk of undermining further efforts to liberalize trade.

Indonesian authorities are currently examining the possibility of limiting the use of all surcharges to a period of one year. The Indonesian authorities announced in May 1990, as part of the latest package of trade-related policy reforms, that some three-quarters of existing surcharges would be eliminated in September 1991.

The exclusive use of ad valorem tariffs contributes to the transparency and predictability of the Indonesian tariff. Indonesia has never applied variable levies or seasonal tariffs. The last remaining specific tariffs on rubber tyres were replaced with ad valorem rates in May 1990.

Tariff predictability is, however, diminished by having less than 10 per cent of items bound. Also, in some instances, surcharges have brought duty levels above bound rates. The Indonesian authorities have

offered a major increase in bound tariffs, in particular for textiles and footwear, in the framework of the Uruguay Round.

With one exception, commodity-specific taxes in Indonesia are levied at the same rate on domestic and imported goods. Imported cigarettes carry an excise tax of about double the rate levied on domestically-produced cigarettes.

Reforms to Indonesia's import licensing system have reduced both its coverage and restrictiveness. Imports of many goods are either no longer restricted, or can be freely made for use as inputs by producers. However, restrictive import licences continue to distort domestic production patterns; about one-quarter of all goods produced domestically would be covered by the licensing system. Documentation used by SGS, which apparently contains precise details on the licensing arrangements, has not yet been made available by the Indonesian authorities.

Merchandise, which can only be imported by authorized importers, cover some 10 per cent of tariff items. Importer-producers (IP licences) allow producers to import inputs not available domestically. The registered importers (IT licences) and producer-importers (PI licences) receive licences with sole importing rights, including importation of goods which they produce. Trade monopolies for individual products exist in the form of sole agents (AT licences) which are national distributors appointed by the Government.

All six registered IT licence holders, importing mainly consumer goods, are State-owned. PI licences provide several State-owned producers, such as Krakatau Steel, Pertamina (petroleum) and Dahana (explosives), monopoly power over importation of competing goods. BULOG's domestic marketing controls over so-called strategic foodstuffs like rice and sugar are underpinned by sole importing and exporting rights.

Imports of certain restricted goods, such as strategic agricultural commodities, fresh fruits, milk products, batik goods, garlic, some steel items and strategic minerals like coal, are only permitted by the Government when shortfalls occur in domestic production. This is enforced through formal or informal quotas or prohibitions applied by the State-trading companies upon advice by the Ministry of Trade. Private companies granted sole importation rights are also expected to pursue import policies that are consistent with government objectives.

The rôle played by State trading and other firms granted import privileges lessens the transparency and predictability of Indonesia's trading régime. The close, and often informal, relationship between the Government and authorized importers creates uncertainty for suppliers and promotes a system that may be vulnerable to manipulation by vested interest groups.

State-trading enterprises dominate several designated strategic manufacturing industries, such as shipbuilding, steel, aerospace, cement, fertilizers and aluminium. Certain of these sectors, especially the

engineering industries, are subject to local content plans. Lists specified by the Ministry of Industry prevent domestic assemblers from importing certain components in completely-knocked-down kits.

While eased for certain products, local content requirements remain high on some other products. For commercial vehicles, trucks and motorcycles, a 100 per cent local content of components remains the objective. Content requirements could vary among firms on the basis of ad hoc decisions by the Ministry of Industry.

Import prohibitions exist in some cases, such as completely-built-up motor vehicles, trucks and machinery, to underpin local content requirements.

Other bans apply to products imported from South Africa, Israel, Angola and, following the 1990-91 Gulf crisis, all trade with Iraq and Kuwait is under embargo.

Procurement by Government, including that of State-trading companies, is essentially reserved for domestic suppliers. Although public tender is obligatory for contracts above Rp 500 million, only foreign suppliers meeting Indonesia's countertrade arrangements will be considered. These policies, operated since 1982 to diversify exports, require foreign contractors to purchase Indonesian exports of non-oil and non-gas products. The countertrade requirement is equal to the value of the contract, after allowing for any Indonesian local content included in the contract and any Indonesian taxes paid by the supplier in fulfilling the contract. To date, products totalling some US\$2.1 billion and covering 26 countries have been exported by Indonesia under these arrangements.

Counterpurchase deals involving the Government have applied to many products, such as plywood, rubber, coffee, tea, cocoa, palm oil, pepper, shrimps, textiles, aluminium, tin, coal, nickel and cement. Similar arrangements cover the export of aircraft components by the State-owned aircraft company (IPTN) in return for Indonesia importing aircraft from certain suppliers. Bilateral counterpurchase agreements, signed in 1988 by the Government with Iran and Iraq, provide for State-trading enterprises to exchange oil imports for Indonesian non fuel exports, such as tea, rubber and plywood.

Other trade-related measures include health, safety and technical regulations or standards. For example, most agricultural imports require a sanitary or phytosanitary certificate. Permits from the Ministry of Agriculture are also required to import most plants, fresh flowers, seedlings, vegetables and fresh fruit. Indonesia's standards, being generally less stringent than international norms, appear not to be a major trade impediment.

On the export side, restrictions and regulations applying mainly to natural resource-based industries, affect over one-quarter of Indonesia's production of tradeable goods. These include prohibitions on logs, rattan, raw hides and cement; quotas on goods like rattan mats; taxes on several

export items, including specific rates with a high incidence on certain varieties of sawn timbers; and licensing of registered and supervised goods requiring export approval from the Minister of Trade.

Export prohibitions applied by Indonesia on tropical logs and rattan, which are also said to be based on employment and environmental considerations, have contributed greatly to the improved export performance of downstream producers, such as plywood and furniture manufacturers. The reductions in domestic prices of unprocessed products induced by the export bans have, it appears, been equivalent to a substantial input subsidy. For example, the export prohibition on lumber has been estimated by one study to benefit plywood exporters and other processors with a 20 per cent reduction in domestic log prices.

Only registered exporters may export goods to which restrictions are applied in overseas markets, in particular textiles, clothing and tapioca. Exports of plywood, spices and rattan mattes are also reserved for registered exporters. Supervised exports, approved only after domestic requirements are met, include major agricultural products such as rice, wheat flour and soybean that are only exportable by BULOG, and also salt, fertilizer and certain vegetable oils. Informal arrangements surrounding the licensing of some export products, and the imposition of quotas, have at times detracted from the transparency of the Indonesian trading system.

Voluntary quality control standards apply to many agricultural exports to improve their international reputation. These operate mainly on agricultural commodities, such as fish, tapioca, shrimps, coffee, tea and vegetable oils, but also relate to a few manufactured products, like wire and plated steel products. Where possible, export standards correspond to international norms, such as those established by the ISO. However, they remain less stringent for many products.

Direct export assistance in Indonesia is limited to promotional and marketing activities financed by the Government. Arrangements assisting exports were curtailed following Indonesia's signing of the GATT Code on Subsidies and Countervailing Duties. Export Certificates were abolished in 1986, and concessional export credits under the Export Credit Facilitation Scheme progressively removed for new loans. Joint-venture banks are required to extend export credits, basically on commercial terms. Export promotion and marketing assistance is provided by the Government-funded National Agency for Export Development. Relatively minor export credit guarantees and insurance are provided by the Government.

A recent study points to substantial compliance costs imposed on both importers and exporters by the fragmented nature of the Indonesian trading system, involving many departments and agencies.

(iii) Temporary measures

Indonesia has never taken recourse to Article XIX. It last used the balance-of-payments provisions of the GATT in 1967.

Indonesia has no legislative procedures governing the use of anti-dumping and countervailing measures. Import surcharges are imposed to protect domestic infant industries from fluctuating world prices. Arrangements for implementing surcharges are largely informal, lack public scrutiny, and have no legal appeal procedures available to grieved parties, such as consumers and downstream producers. Sunset clauses automatically terminating surcharges after one year have rarely been adhered to in practice.

Import surcharges have been apparently used, in some instances, as a substitute for anti-dumping action. According to Government officials, Indonesia is considering the introduction of anti-dumping legislation along the lines of the GATT Code.

(iv) New initiatives

The Indonesian Government remains committed to the on-going reform of its trading system. The last reforms were implemented in May 1990. A further package of reforms, initially due for release late last year, is to be announced in the next few months. Such an announcement would be well inside the Government's aim of implementing another major reform package within two years.

(4) Trade Policies and Foreign Trading Partners

The thrust of comprehensive deregulatory reforms since the mid-1980s has been to integrate Indonesia more closely into the world economy through the gradual introduction of market-opening measures. The changing structure of price incentives induced by these reforms has successfully promoted diversified export growth and accelerated economic expansion in Indonesia over the past three years, at a time of declining world economic growth.

Greater dependence on the world economy has strengthened Indonesia's interests in, and reliance on, the multilateral trading system. The Government has no immediate plans to enter new bilateral trading arrangements with regional neighbours. Rather, Indonesia appears to be focusing its regional efforts on strengthening existing ASEAN ties. Member governments have recently agreed to an Indonesian proposal to examine the elimination of non-tariff barriers to intra-ASEAN trade. Bilateral trade and economic co-operation agreements concluded by Indonesia are subject to normal GATT rules, and apply no special dispute settlement procedures.

The active participation of Indonesia in the Uruguay Round is considered as offering the best prospects for a relatively small but dynamic trader to share in the rewards of more liberal world trade. Improved access to markets for Indonesian goods is seen as playing an important rôle in strengthening Indonesia's capacity to servicing debt obligations and reducing the need for foreign borrowings.

Efforts by Indonesia to achieve freer overseas markets have been concentrated in sectors where world trade is highly distorted, such as

textiles and agriculture. Indonesian exports of textiles and clothing to Canada, the EC, Norway, Sweden and the United States remain restricted by MFA quotas. Indonesia has pressed for the integration of trade in textiles and clothing into GATT, taking into account the need for certain transitional arrangements. Footwear exports are also constrained by foreign trade barriers, especially quantitative restrictions. In agriculture, Indonesia along with other members of the Cairns Group, supports a reduction of distortions to international trade in view of its perceived long-term potential as a net food exporter.

Improved access in external markets would, in the Government's view, reinforce Indonesia's efforts to liberalize the domestic market. Better overseas marketing opportunities would help muster internal support for the Government's reforms. This will become more important if future reforms are to tackle areas where Government support is firmly embedded.

Pockets of industry, including many strategic manufacturing and agricultural products, continue to be largely insulated from world market pressures. Extending reforms to cover import policies in these areas, including changes to State trading operations, Government procurement and countertrade practices, would promote structural adjustment in the economy; be a further impetus to export development and economic diversification; and raise import demand.

Imports into Indonesia, especially of capital and intermediate goods, have already grown strongly in line with the export-led investment boom. Access to Indonesia's expanding import market by overseas suppliers has been generally provided on a non-discriminatory basis. Export growth areas benefiting from trade liberalization have attracted high levels of foreign direct investment and related imports.

Some trading partners have been concerned with the trade-distortive effects of Indonesia's policies towards using export restrictions to boost exports of major natural resources in processed form. Whether Indonesia benefits in the long term from such policies will depend on its ability to develop export-competitive processing industries not dependent on continued support through depressed input prices.

Further deregulatory reforms should create additional market opportunities for foreign exports into Indonesia and stimulate Indonesia's export potential in a broad range of products. Although many of the most difficult areas of reform remain to be tackled, the adjustment of industries enjoying high levels of protection to international competition would offer economic benefits both for Indonesia's trading partners and the domestic economy. As in many other developing economies, trade and economic growth in Indonesia remain closely linked, and international trade can be expected to contribute to strengthening Indonesia's position as one of the more rapidly growing developing countries.

TRADE POLICY REVIEW

Report by the Government of the Republic of Indonesia

Summary extracts

1. Introduction

Through a series of wide-ranging deregulation efforts over the last decade, Indonesia has made significant strides towards developing an outward-looking economy. Major deregulation packages have been implemented not only in trade policy, but also in financial and capital markets, tax policy, and investment regulations. Market-oriented exchange rate policies have been maintained now for two decades. The beneficial results of these efforts have been clear - non-oil exports (and imports) have grown substantially over the last ten years, especially the last five years, contributing importantly to generating overall economic growth rates averaging well over five per cent per year over the last five years.

Indonesia remains committed to furthering its open-market policy efforts, aiming to increase the competitiveness of its domestic industries. We recognize that as Indonesia comes to rely less and less on oil and gas exports to fuel economic growth, it will be non-oil exports that act as our "led-growth". And, given the extreme competition in most world markets, Indonesia cannot afford the luxury of inefficient economic policies. As a result, Indonesia has reduced significantly the use of quotas and other non-tariff barriers as a form of trade policy. To the degree that protection of domestic industries furthers our development efforts, this will be implemented in the form of tariffs, in accordance with GATT disciplines. In our development plans, these tariffs will be reduced gradually on a stage-by-stage basis. Let us note that, currently, Indonesia's average tariff rates are not particularly high.

Indonesia's outward-looking policy approach not only affects the structure of our domestic economy, but it exposes our exporters to a wide range of trade policies in other countries. This exposure and the need for foreign market access raises the importance of multilateral and bilateral trade relationships to Indonesia. In this regard, GATT disciplines help outward-looking developing countries such as Indonesia to the degree that they lessen market restrictions in developed countries. Indonesia has become an increasingly active participant in GATT, as reflected by its early submission to this Trade Policy Review Mechanism. As described in this report, Indonesia is striving to be a responsible member of the international trading community. Few countries anywhere in the world have matched our deregulation efforts over the last decade. Further economic reforms are continuously discussed by our Government.

2. Description of the Foreign Trading System

Most imports and exports can be traded freely, requiring only a general trading licence that can be obtained quickly and that is valid for the life-time of the firm. Only about 9 percent of the existing tariff

lines require special import licences, and this list has been reduced steadily over the last five years. Products that require special licences generally involve concerns related to national security, community health and the development of domestic industry. Customs procedures have a Clean Report of Findings (LKP) that is issued by an independent surveyor specified by the Government.

Nearly all exporting can be done freely by anyone with a business licence. Products that require a special licence in most cases are those products that are exported subject to quotas applied by the importing countries or because of international commodity agreements.

3. The Trade Policy Framework

(i) Domestic Laws and Regulations Governing the Application of Trade Policies

Indonesia's jurisdictional system conforms with any international agreement signed by the Government of Indonesia and ratified. As a member of GATT, Indonesia's trade laws accommodate the basic GATT principles. Examples of the key domestic laws and regulations include company brands, free trade and port zones, legal metrology, copyrights, and patent rights.

(ii) Summary Description of the Trade Policy Formulation Process

Trade policy, as an integral part of national development policy, is conducted within the framework of Five Year National Development Plan (REPELITA). Trade (import and export) licensing policy is the responsibility of the Minister of Trade and its implementation is stipulated by Ministerial Decree. The Minister of Trade may consult with other relevant Ministers as required. In the case of export and import tariffs and taxes, they are stipulated by the Decree of Minister of Finance. Coordination and consultation among Ministers is facilitated by the Coordinating Minister for Economics, Finance and Industry. The opinion of the private sector regarding these matters also are solicited by the Government, in part to improve the implementation of the policies.

(iii) Bilateral, Multilateral Regional and Preferential Trading Agreements

Since Indonesia's independence, Indonesia has signed trading agreements with 44 countries. In every trading agreement, Indonesia applies the non-discrimination principle and strives for the fair treatment of its trading partners.

In cooperation at the regional level, Indonesia is a member of ASEAN, and has been active in the ASEAN forum. To facilitate trade among ASEAN member countries, trade cooperation is arranged in the form of Preferential Trading Arrangements (PTA). To date, PTA has involved mainly tariff rate reductions on a range of imported products for each ASEAN member.

In multilateral forums other than GATT, Indonesia has participated in the Global System of Trade Preferences (GSTP) in the framework of UNCTAD, and in a number of bilateral General System of Preferences (GSP) arrangements with developed countries. In addition, Indonesia participates in a range of commodity agreements and international organizations. Recently, Indonesia has participated in the Cairns Group of countries that support agricultural policy reforms in the Uruguay Round of GATT Negotiations.

4. The Implementation of Trade Policies

(i) Trade Policy Measures Used by Indonesia

Over the last five years, Indonesia has been quite successful in shifting its trade policy regime away from the use of quantitative restrictions to the use of tariffs. Tariffs are now the main trade policy instrument. Existing quotas are continually being replaced with tariffs -- generally termed surcharges, which are temporary in nature. Surcharges are designed to alleviate the adjustment burden on some industries following the removal of quantitative restrictions. Being temporary, the removal of surcharges will in future enable a gradual reduction in the overall level of tariff protection. Indonesia has GATT-bound some of its tariffs, and is actively considering binding additional tariff rates.

Import duties are applied on the c.i.f. value of imported goods. All import duties are now applied on an ad valorem basis. Import values are determined by an independent surveyor assigned by the Government for all transactions greater than US\$5,000. For transactions less than US\$5,000, the invoice price is used. A Certificate of Origin is required only for the ASEAN-PTA.

Exports where quotas are forced on Indonesia by foreign country import policies include textile and apparel, and manioc. Coffee quotas have been temporarily eliminated. Export taxes, ad valorem (5%, 10%, 20% and 30%) and specific, are applied to a small number of exports.

On 4 March 1985, Indonesia signed the GATT Code on Subsidies and Countervailing Duties. Following the signature of this code, Indonesia replaced a system of export payments (the Export Certificate Program) with an import duty drawback and exemption scheme. This scheme allows exporters to import their inputs at world prices. This program has been quite influential in facilitating the non-oil export drive, while increasing imports as well. In 1985, Indonesia also replaced an ad hoc and often protective import and domestic sales tax scheme with a trade-neutral value-added tax (VAT) system. Under the VAT, imported products are taxed at the same rate as similar domestic products, and the VAT is rebated for any product that is exported. In addition, a subsidized export financing scheme has been fully eliminated, as of 1 April 1990. Subsidies for pesticides have been completely eliminated, and subsidies for fertilizer, which is part of the very successful rice intensification programme, have been gradually reduced over time.

To facilitate the trading system, a Bonded Zone was established in Jakarta. In addition, another Bonded Zone was established covering the entire Batam Island.

To support national economic activity, business has been promoted in the form of the private sector, the state-owned companies (BUMN) and the cooperatives. These three groups are expected to generate economic growth.

Exchange rates are determined on the basis of a managed float based on a basket of currencies weighted by trade flows with Indonesia's main trade partners. There are no international capital market restrictions. Indonesia has a long history of responsible exchange rate management, which has contributed importantly to the overall success of Indonesian growth over the last two decades. Indonesia's ability to avoid the debilitating effects of the debt crisis that has plagued so many developing countries rests to a large degree on the effective management of exchange rate policy.

Government procurement regulations allow individual Ministries to stipulate the winners of tenders for projects up to Rp. 3 billion. Tenders of greater value must be approved by the Coordinating Minister for Economics, Finance and Industry (EKUIN). Counter-purchase requirements apply only to government imports or purchases financed by the State Budget and Export Credits that are greater than Rp. 500 million in value. In addition to this policy, Indonesia entered into a counter-purchase arrangement with Iran and Iraq, whereby Indonesia purchases petroleum, and Iran and Iraq use these funds to purchase Indonesian non-oil exports.

(ii) Development During the Period Under Review in the Agreement.

Indonesia has experienced a non-oil export boom over the last five years. Non-oil exports have more than tripled, while non-oil imports have expanded significantly as well. Concerning trade composition, trade (export and import) between Indonesia and the countries with which it has concluded trade agreements is about 74 per cent of total Indonesian trade. Indonesia's overall trade balance has traditionally been in surplus. Indonesia, however, also normally runs a large deficit in the service account, leading to a current account deficit. Trade between Indonesia and other ASEAN members has fallen in relative terms over the last several years, falling from 12.4 percent of total trade in 1984 to 10.9 percent in 1989.

Indonesia has increased its use of GSP facilities, especially from the United States, Japan and the EEC. Nevertheless, Indonesia still makes a relatively small use of GSP compared to other ASEAN countries. Concerning GSTP, Indonesia has made requests and offers for 24 products to 17 countries, three products have been given mutual preferences with the Republic of Korea.

(iii) Programmes in Existence for Trade Liberalization.

Indonesia started its open market orientation when it guaranteed the free flow of foreign exchange in 1970 and when it guaranteed the rights of foreign investors. Indonesia has been able to escape the negative effects of surges in commodity export prices, especially for oil and gas. When oil and gas prices collapsed in 1986, the Indonesian government moved quickly to introduce a series of policy reforms designed to stimulate non-oil exports and to increase domestic non-oil tax revenues and private savings. As a result of a broad-based open market policy approach, non-oil exports (and imports) have not only increased substantially, but they have become greatly diversified. Hundreds of different types of products are now exported and imported.

(iv) Prospective Changes in Trade Policies and Practices.

The Government of Indonesia plans to continue its efforts to build an efficient domestic economy. The deregulation efforts to date will be refined, and the possibility of further deregulation will be addressed. Trade policy in this way will pursue the achievement of the REPELITA V GDP growth target of 5 percent per year, of doubling non-oil exports, of creating 11 million new jobs, and building a business environment that is favourable to achieving these goals. It is now fully recognized that trade and investment policy is an integral part of the national development strategy. Indonesia has accomplished the very difficult task of creating an "export optimism" attitude after decades of "export pessimism." Although the effects of the current disruption in the oil markets are hard to diagnose, the Government of Indonesia expects fully to continue to pursue an outward-looking growth strategy that conforms quite well with the GATT principles of responsible trading practices.

(v) Participation of Developing Countries

No matter how much developing countries such as Indonesia desire to play a major rôle in the GATT, however, the effectiveness of these efforts is seriously constrained by our lack of training and information networks regarding GATT issues and negotiations. Since increasing developing country participation in the GATT is one of the top priorities of the Uruguay Round, and since many developing countries such as Indonesia are anxious to play a more effective rôle in GATT, let us take this opportunity to call for an all out effort by the GATT Secretariat and similar groups to help developing countries to develop their capacity to play a more effective rôle in the highly complex world of GATT and multilateral trade negotiations.

5. Trade Policies and Practices

(i) Objectives of Trade Policies

From the oil boom until the mid-1980's the oil and natural gas (migas) sector played a large rôle in the structure of the Indonesian economy. This

is reflected in various economic indicators, such as gross domestic product and export revenue, as well as the government budget. Thus the rôle of the Government loomed in economic life because the oil and gas sector, pursuant to the constitution, is controlled by the Government. But the large rôle of the oil and gas sector caused problems for the Indonesian economy, when the oil price fluctuated. As of the end of 1981, the old rôle of the oil and gas sector gradually declined. The Government then started to promote the non-oil sector because it was a '*conditio sine qua non*' to replace the revenue from foreign exchange which decreased due to the decrease of the oil price. The increase in non-oil and gas exports was also aimed at diversifying employment. The successful attempts by the Government to increase non-oil and non-gas exports have induced fundamental structural change in the economy.

This shift in economic structure from the oil and gas sector to the non-oil and gas sector is developing rapidly and exceeds the development of the oil and gas sector. This change carries the consequence of changes in various sectors, including state revenues. In addition, such development also raised the economic motivation of the business community. The rôle of the private sector increased because most activities of the non-oil and gas sector are conducted by private sector, whereas the Government adopts the rôle of facilitator.

The fundamental change in the economic structure was a result of a series of economic deregulation policies which were applied by the Government to create a more open and outward-looking economy, by encouraging more liberal foreign trading, consistent with the GATT principles. In addition, in order to achieve maximum efficiency, the economic policy is also directed so that the market mechanism functions more fully.

The outward-looking policy emphasizes increasing exports of non-oil commodities, through increasing their competitiveness and attempting more extensive access to the market. In increasing competitiveness and market access, resources are allocated effectively and efficiently in accordance with the market mechanism so that domestic industry operates more efficiently and its output has a better capacity to compete on the international market. In attempting to gain access to the international market, Indonesia is active in various international fora to discuss a more liberal world trade system.

Indonesia remains consistent in helping to create a more liberal world trade system because of its open economic system which commenced in 1970 when the liberal foreign exchange system was applied. The consequence thereof is that Indonesia became very sensitive to developments of the world economy. Therefore, in the early 1980's when there was serious disruption in the world economy, such as among other things the instability of the oil price, realignment of foreign exchange rates, and the weakening of the price of primary products, various deregulation policy measures were then taken to save the economy and simultaneously to place a more stable foundation for the continuation of national development. Such deregulation policy has focused on the trading, industrial, transportation, investment, finance and banking sectors. Such deregulation policies succeeded in

changing the economic structure which no longer relies so heavily on a specific sector only, e.g. oil and gas. Apart from this the competitiveness of domestic industry increased further as reflected in the increasingly extensive supply of Indonesia's manufacturing products on the international market. If protection of the industrial sector is offered, it is increasingly conducted through the transparent tariff system. In addition, attempts are also made to reduce the existing tariff rates by stages. The tariff structure which currently prevails is, for a vast majority of sectors, at a relatively low tariff rate. While tariff is considered as instrument for supporting trade policy, however, in Indonesia the tariff is still one of the major sources of government revenues.

(ii) Description of the import and export system

a) Imports

Most goods may be imported freely with no previous license required, except for some products which total approximately 9% of the existing tariff lines. Products for which a license is required prior to importation are, in general, relevant to national security, community health, and the development of domestic industry. In the framework of increasing efficiency and policy openness, the Government will consistently attempt to make the tariff the only instrument which is used to protect domestic industry, in accordance with the GATT principles.

Goods may be imported into the Indonesian customs area only when they are accompanied with a Clean Report of Findings (LKP) which is issued by a surveyor who has been specified by the Government. The Clean Report of Findings is based on an inspection which is conducted by a surveyor in the country of origin of the imported goods. The purpose thereof is to expedite the flow of goods and documents at the Indonesian port of unloading. The inspection of such goods covers the correctness of the type and quality of the goods, the volume of the goods, the price, freight charges, number of tariff items, and rate of import duty. Excepted from this inspection are imported goods which are less than US\$5,000 in value, personal belongings to be moved, diplomatic items, crude oil, weapons and supplies to the Armed Forces (ABRI) and goods which have been granted to the Indonesian Government.

With free foreign exchange the system of import payments may be applied with various methods which are normally applied in international trading, pursuant to the consensus between the seller and the buyer. With this system, imports can be easily effected. There are no obstacles for the importers to obtain foreign exchange because Bank Indonesia is obliged to sell foreign exchange whenever required.

b) Exports

Consistent with the export development policy, exports of nearly all products may be conducted freely by anyone who possesses a business license. The products for which a license is required prior to conducting their export are, in general, those restricted by quotas applied by the

importing country (textile and apparel as well as manioc) or because it is in the context of an international commodity agreement, such as coffee by ICO.

No customs inspection is conducted on any goods which are exported, except those for which a quota is applied by an importing country, or as organized by the international agreement, and goods which are subject to an export tax. Apart from this Customs may inspect if there is any doubt that such goods deviate from the prevailing trade regulations. The implementation of such inspection must be based on a written instruction from the Director General of Customs and Excise.

The export payment system may also be applied freely in accordance with the consensus between the seller and the buyer. The exporter is free to use the foreign exchange from its export proceeds with no obligation to sell to Bank Indonesia.

6. Wider Economic and Developmental Needs, Policies, and Objectives

The present structure of the Indonesian economy, if compared to the structure of several years ago, has undergone fundamental changes. This can be seen in the composition of gross domestic product, foreign trade, and the state budget of income and expenditures.

In the development of the Gross Domestic Product (GDP) there are four business sectors the development of which is worth taking note of, i.e. the agricultural sector including livestock, forestry, and fishery; mining and excavation; the processing industry; and trade. In the agricultural, livestock, forestry and fishery sectors from 1983-1989 the share against GDP was about 22% with a slightly decreasing trend. The development of the mineral and excavation undertakings also relatively decreased, i.e. in 1983 from 20.75% to 15.50% in 1989. On the contrary for the processing industry and trade sectors the share against GDP increased. The share of the processing industry sector in 1983 was 12.75% and increased to 18.48% in 1989. Whereas the trade, hotel and restaurant sectors with a share of 14.71% increased to 16.05% in 1989.

The structure of the State Budget of Income and Expenditures, specifically the domestic revenue, experienced fundamental changes. In the 1980/1981 budget year revenue which originated from the oil and gas sector still constituted the largest part, i.e. 74.2% whereas the new non-oil and gas sector was 25.8%. However, in the 1986/1987 budget year the revenue from the non-oil and gas sector had already exceeded the revenue from the oil and gas sector. This situation constantly developed. Hence in the 1989/1990 budget year, the revenue from the non-oil and gas sector has already reached 59%, whereas the oil and gas sector contribution decreased to 31%. This situation was due to the policy packages which were aimed at increasing the non-oil and gas exports. Because the oil price tends to fluctuate, the policy to encourage non-oil and gas exports, which covers policy in trade, fiscal, monetary, investment and other supporting policies, will continuously be extended and implemented consistently.

Indonesia, as a developing country with a total of 180 million people, encounters very complex economic development problems. However, there are two problems which have first priority, i.e. improvement of the balance of payments and the provision of employment. Hence various policies, including trade policy, refers to such priority problem. Specifically, concerning the Debt Service Ratio (DSR), it is expected to decrease from 31.9% in 1988/1989 to 23.5% in 1992/1993.